RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

June 18, 1986 **LETTER 941**

THE PICTURE: The veterans, the value-oriented traders, they're becoming disenchanted with this market. In the June 6 Barron's, old-time Wall Street master Roy Neuberger (Neuberger, Berman) warned that this market is too speculative, too high-priced. In the same issue of Barron's billionaire investor-genius Warren Buffet complained that he can't find any values in today's market and stated that he has sold all but three of his investments at Berkshire Hathaway (the latter is his holding company). Then in the June 9 NY Times there appeared an article which stated:"the Western central banks present a generally gloomy view of the world's economic prospects in a new report, saying that despite some improvements the severity of many key problems 'has diminshed little if at all over the past year.' "

So what's going on? Are we nearing the end of the big bull market and are all projections of "2,000 and over for the Dow" just so much optimistic blather--or is this still a primary bull market that is stepping back into a consolidation/correction phase, preparatory to fooling the nation's best known, wisest -- and gloomiest -- experts?

For the answer (and this can hardly come as a surprise to my older readers), I will turn to the stock market itself. Why do I turn to the stock market? Because there's more knowledge built into the movement of the Averages than there is in Congress, the Treasury and the boards of all the corporations in the nation taken together. Those who follow Dow's Theory adhere to the time-honored and basic premise which states that "Everything that anyone knows about stocks, politics, business, earnings and anything else is BUILT INTO the action of the Averages."

On June 6 Wall Street provided a perfect example of truly rotten market action. But that day could ultimately prove most revealing. On June 6 the D-J Industrial Average closed at a new record high of 1885.90. On the same day the D-J Transports, having failed to confirm new Industrial highs on two previous occasions, actually declined by 9.12 points as did the Utility Average (down 0.93). To add to the poor performance, the A-D ratio also backed off in the face of the new record high in the Dow. To put it mildly, June 6 was (technically) a very bad day.

So here's the point. The market has now provided us with the "perfect scenario" for an important decline or reaction: persistent divergence in the Averages, a new unconfirmed Dow high, a lagging A-D ratio, a 300-plus point spread between the Dow and its own 200-day moving average, and a steady diminution of both volume and daily new highs as the Dow pushed to its June 6 record high.

What the market does following this kind of situation is always of major significance. I've stated in recent Letters that I thought the market was ahead of itself, and that the best thing it could do was to rest, back-and-fill, or slide into a correction. I said further that if I had to guess I would guess that the market was ready to sink into a trading range (and maybe a very frustrating trading range). I continue to harbor those same thoughts. I don't think we're on the edge of a bear market, and I don't think the whole ball game is over. But I do think the fireworks could be over for a while. If so, don't bother despairing, because the bull market will ultimately be extended. It will last longer and go higher BECAUSE of the interruption.

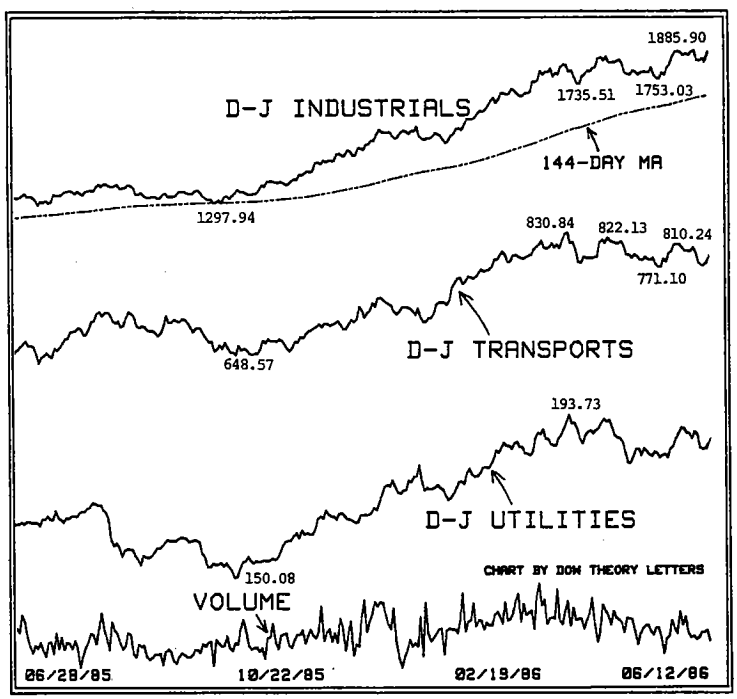
June 6 DJIA 1885.90; PTI 2280; A-D Ratio -5.85
June 13 DJIA 1874.19; PTI 2290; A-D Ratio -5.94

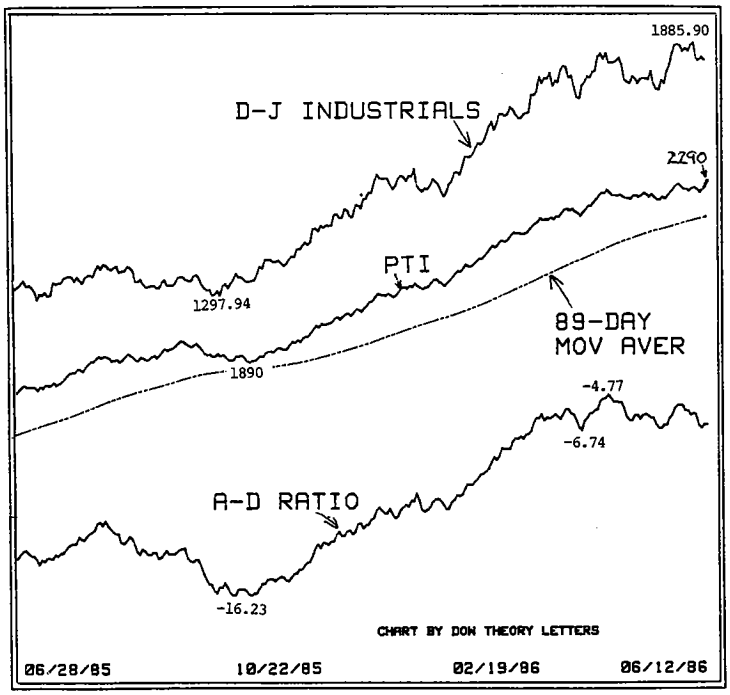
On June 10, the market (closely following the pathetic June 6 performance) did something that made newspaper headlines across the nation The market spilled with the Dow dropping a fat 45.75 points, a new record as far as the headlines were concerned. Any way you look at it, the market was making its point-- Wall Street is, and always has been, a TWO-WAY street.

Following the "big spill," the market Averages worked lower, but the IMPORTANT POINT is that the Dow never got near its critical low of 1735.51 (see page 1 chart) or even close to its recent May 27 low of 1753.03. The key to this market is the ability (or inability) of the Dow to RESIST CONFIRMING the Transports on the downside. So far, the Dow is FAR away from confirming. And from the standpoint of Dow Theory and the price structure, that's bullish. Let me put it another way--despite persistent Transport weakness, the Industrials are NOT confirming that weakness. To me, that's the most important consideration in the current market picture.

Note how VERY FEW analysts are covering this crucial point. Why? Simply because Wall Street (for some strange reason) has never really mastered "reading" the Averages. The Street (and most experts) would rather scrutinize the latest fad-index or mumble over the leading indicators or the drop-off in volume. But I place the reading of the Averages ABOVE ALL ELSE in appraising the near-term condition of the market. And as long as that D-J Industrial Average holds above recent lows (as it has been doing), this market remains basically strong (resting or even correcting, perhaps), but still basically strong.

While I'm at it, I want to go over one important concept with subscribers. It is the growing volatility in the Dow. On May 27, 1986 the stock of Merck was split two for one. With this split the divisor (or adjuster) for the Dow, for the first time in history,





dropped below 1.00 to 0.956. This means that the Dow divisor has now become a MULTIPLIER. For example, if each of the 30 stocks in the Dow rises (or falls) by 1 point, the Dow will rise or fall by 32.29 points! Thus, it is easy to see why the volatility of the Dow is increasing.

On June 9 the Dow dropped 45.75 points, and this was widely advertised as the greatest Dow pointage drop in history, which was true. But I list below the greatest Dow PERCENTAGE drops: Oct. 28, 1929 a drop of 12.82%; Oct. 29, 1929 a drop of 11.73% or an unbelievable combined drop of 24.55% in two days; Sept. 26, 1955 a drop of 6.54%; May 28,1962 a drop of 5.71%; October 25, 1982 a drop of 3.52%; Jan. 8, 1986 a drop of 2.50%.

INVESTMENT POSITION: Yes, in case you were wondering, the bull is still in the box. The beautiful ever-rising stock market turned reactionary in early April, and if you'll remember, it was exactly on April 4 when the third "buying stampede" ended (see Letter 936, April 9). I said in that Letter that on the termination of the buying stampede we could expect extended sideways to down action and that's really been the story ever since.

As I see it, if you bought your stocks and bonds right (which means early) there's no need to do anything at this point. If you're a new subscriber and you have a thin or even a zero stock and bond portfolio, I don't see that there's any hurry to do anything. This is a market that's had a huge upside run in both stocks and bonds--and it's a market that's still "out of breath." When a world-class runner has set a world's record and is exhausted, he parks himself on the grass and cools off. Wall Street does the same thing, and it's doing it now.

THOUGHTS ON THE MARKET: What are some of the big pluses in this market? The best thing about this market (and I'm not being naive) is that it's still a confirmed bull market under Dow Theory, and it will remain a bull market until PROVED otherwise. Of course, the "otherwise" would be the arrival of a Dow Theory bear signal (I explained what a bear signal looks like in Letter 940, page 1). There are a number of other big positives about this market, and, obviously, I can't go into all of them. But another big plus is the record level of the margin accounts on the NYSE (margins tend to go WITH the primary trend). Another plus is the record short interest on the NYSE (the more shorts, the more skepticism--even allowing for arbitrage shorts).

Norman Fosback of the "Market Logic" service notes, "The single most bullish factor underlying the market's current technical strength is the large cash position of the mutual funds. According to our research," states Fosback, "the cash position of mutual funds is the most bullish it's been in 30 years. The average mutual fund's cash position is 10.5%, which is high (when compared historically) when interest rates were at this level in the past." Fosback has cleverly adjusted his mutual fund index to prevailing interest rates (because when rates are high, the funds tend to hold more cash or T-bills), and on the adjusted basis his fund cash index is now at 4.1%. This high level has only been approached a few times before in history, and each time this level has been associated with important launching areas for stocks (such as late-1970, late-1974 and 1978). My conclusion is that there's never been a time when the funds were smart enough to be loaded with cash (as now) at a top. Therefore, despite what you hear, the current area is very UNLIKELY to be a top.

All right, these are a few of the things that I like about this bull market. But I want to warn subscribers (and I've written about this often) that bull markets don't just rise in a straight line to wherever they're going. No, the path of a bull market (particularly a great bull market such as this one) is winding, bumpy, extended, and almost always frustrating. But remember, the more corrections, the more interruptions, the more problems, the more scares -- the longer and higher (ultimately) this bull market is likely to go.

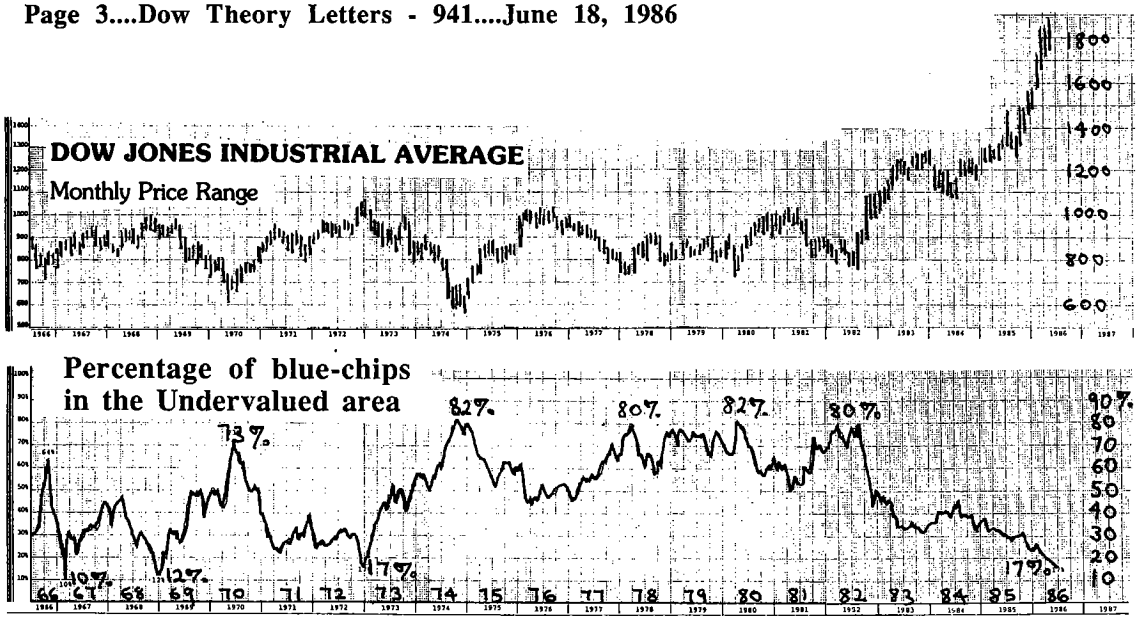
Here is a crucial concept that I want all my subscribers to remember about a primary bull market: Over TIME the trend of stocks runs TOWARD VALUES. Charles Dow recognized this phenomenon as long ago as 1901 when he stated that when the average yield on good stocks drops below 3 1/2%, those stocks are over-priced. It is amazing how well Dow's original observations have held up over the years. Any study of average yields on the D-J Industrial Average will show that when those yields drop into the 3.5% or lower area, the market in general tends to run into trouble. This occurred in 1959, 1962, and again in 1973. At present the Dow is in the 3.6% area--pretty close to the trouble zone.

My friend Gerry Weiss in her report, "Investment Quality Trends" (published here in La Jolla), follows 350 blue-chip, dividend-paying stocks. Twice monthly she grades each of these stocks on the basis of valuation. Gerry runs yield perimeters for each stock so that she knows when any given stock is in its over-valued or its under-valued zone, based on that stock's particular history. For instance, GE may be undervalued when its yield rises to 5.5% and overvalued when its yield drops to 2%.

Twice a month IQT runs the percentage total of all the stocks in its 350-stock universe that are in the undervalued zone. The results of this tabulation can tell us a lot about the general market. I include here IQT's latest chart (see page 3) showing the monthly tabulations of their "undervalued" stocks (in terms of percentages going back to 1966). I believe that this chart provides critical information at this time.

Note on the chart that when the undervalued percentages pushed into the 70% and 80% area, investors began accumulating them. Investors love blue-chip bargains, and as you can see on the chart 73% of IQT's stocks were undervalued in 1970, 82% were undervalued in 1974, and during the 1978 to 1982 period the undervalued index hit the 80% level on four occasions. In retrospect, each of those areas represented a fine place to load up on equities. In each of those areas, undervalued stocks were a dime a dozen.

Now we come to the low percentages, areas where bargains are hard to find. This occurred in 1967 at only 10% undervalued, in 1969 at 12%, and in 1973 at 17%. Here in 1986 with the undervalued group down to only 17%, it's happening again. The question--what does this dramatic shrinking in the undervalued group mean for today's market?



All I can give you here is my seat-of-the-pants opinion. Ordinarily, I would say that at 17% undervalued and at a Dow yield of only 3.6% we have to be cautious--maybe very cautious. But this is a big, powerful bull market, and this bull market has had to face a lot of problems and an awful lot of interruptions. Despite the low valuation in the great majority of stocks, I feel that this bull market has further to run. But it is entirely possible that too much enthusiasm has been generated here in 1986. When that happens, the market has its own way of taking care of things. It either goes into a corrective phase or it goes into a frustrating phase (characterized by an extended and tedious trading range). If I had to guess, I would guess that a wide trading range is what we could see in the period ahead.

I note also there is just too much emphasis these days on speculating, beating the Averages, trading, performance, etc. And conversely, there is entirely too little emphasis on old-fashioned investing (investing for values and return and possible long-term profits). So I feel that at this time the market is perfectly positioned to frustrate the hot shot, the option hound, the speculator, and the trader.

With the D-J Averages now diverging, with the A-D ratio not confirming recent highs, and with the Dow still 300 points above its moving average, Wall Street should be moving toward "frustration time." But for those of us who invest for income, I don't think it should be a particularly frustrating period. As far as I am concerned, this market owes me nothing, nothing at all. Of course, it never has--and it never will.

TAX BILL: The more I look at the new tax bill, (1) the less enthusiastic I get about it, and (2) the more doubts I have about it passing. This bill (Senate version) is supposed to be tax reform? It's supposed to be simple? Does that mean I won't need an accountant to figure what I'll owe Uncle Sam? Forget it! I'm not even sure that taxes under the new bill won't be harder to figure than the old one. Mull this over: the just-published Senate Finance Committee's bill is 2,847 pages long! Does that sound like tax simplification? And there's a 1,124-page committee report published by the Senate to EXPLAIN the new tax bill. Does that sound like simplification?

The bill has not gone to the Joint Committee yet, and when it does, that's where the fun begins. Remember, by Constitutional law ALL tax bills must originate in the House, and that's why the Senate version is labeled a House bill (Senate version). The reason for House origination of tax bills was that the House represents all the American people in that the House is a democratic organization based on populations of the various states. On the other hand, the Senate was the Founding Fathers' concession to the conservatives, in that each state, regardless of its population, is allowed only two senators. The Senate was the home of the elite, but only the democratically conceived House was allowed to originate tax bills ("No taxation without representation," remember?).

At any rate, when the bill hits the Joint Committee there's going to be one heck of a lot of arguing, shouting, recriminations and CHANGES. I believe the JC is going to want to push the high end (27%) of the tax bill higher. And I think there's going to be a general disposition to hit business harder. Put it this way, if the bill ultimately fails to pass, I believe business as a whole, and the stock market, will like it.

On top of everything else, the way the Senate bill is written it is going to be very costly for many higher bracket wage earners. If the bill goes through, all your deductions will be taken away on January 1, 1987. But you will not get your new lower top marginal rates until mid-1987. Thus, the advertised top marginal rate of 27% will only come after three stages. Top earner's rates would be 50% in 1986, 38.5% in 1987 and finally 27% in 1988.

As I see it, this bill will definitely be deflationary because it will hit real estate and it will hit capital spending. You know, it's ironic but during the 1970s and '80s when the great underlying force behind the economy was inflationary, almost everything Congress proposed was also inflationary or possessed an inflationary bias. This had the effect of intensifying the prevailing inflationary forces.

But now, when the underlying forces are deflationary, Congress comes up with a basically deflationary bill. Heavy industry, which is now floundering (to put it kindly), loses its investment credit. Consumers lose all their interest deductions (except the deductions for charity and the interest on their homes). The net result is that heavy industry will spend less and the consumer (the masses, the ones that BORROW TO BUY) will spend less.

I want to say now that I personally have no biases about this bill. I have a high salary and very few tax shelters and a lot of muni bonds, so I would be the ideal person to be helped by this bill (I would definitely come out ahead under the Senate version). But it wouldn't bother me at all if this bill never makes it out of the House. As I said, the more I study the bill, the less I like it. And the more I think about it, the less convinced I am that the bill is going to pass. Finally, if the bill doesn't pass in 1986, I think you can forget it. The momentum for the bill (which is huge now) will have evaporated. It will be an idea whose time came--and went.

MUNI BARGAINS? Nuveen (specialists in muni bonds) just put out a report that bears repeating. They note that under either the Senate or the House version of the tax bill margin rates will be lower. They also note that long-term muni revenue bonds yield

about 8 1/8% while comparable maturities of Treasuries yield 7 3/4%. If a tax reform bill goes through, even the most conservative estimate places muni yields at about 87% of taxable yields. This would put long-term tax-exempts at about 6 3/4% in today's market. Since these bonds can be bought at better than 8% yield in the current market, they would appear to be UNDERVALUED by 125 to 140 basis points. The conclusion is that once tax-exempt bonds are realigned in relation to taxable bonds, there would be a pretty big cushion under the tax-exempts in the event of a general market push to higher rates.

Note: Short-term muni bonds do NOT share this same advantage of yield over short-term government paper. In other words, for the muni yield advantage one must go out at least 10 years (as far as maturities are concerned).

QUESTIONS & ANSWERS: Question: On June 2 (and this is not atypical these days) the Dow opened down 7, dropped to minus 28 in the afternoon and then closed at minus 14. That's fantastic volatility. What does that mean, if anything for investors and the market?

Answer: First you have to remember that at the current low divisor on the Dow, if every Dow stock rises just 1 point the Dow explodes over 30 points. So moves are more exaggerated today. Also, you have to remember that above 1700, a 50-point move in the Dow is only 3%. Back in 1950 a 50-point move was roughly 25%. That, by the way, is why I like to view the stock averages today on a ratio chart which shows percentages. Arithmetic charts at these heights can be scary--and deceptive. For instance, both Barron's and the Wall Street Journal show all market movements on arithmetic charts.

Next, we do have the "program" buying and selling spates, and these obviously add even more volatility to the markets. But I've said before, the programs won't and can't change the major or primary trend of the market. And in the end, it's the primary trend that makes or breaks investors.

As an aside, it may even be that the "programs" by their very volatility and explosiveness go a long way to extending the primary trend. How can they do that? By scaring the devil out of the public. In a way, the sporadic swoons of the market serve to keep the public off balance (and the market over-sold). The violent movements also give the stock market the appearance of a Vegas-type operation, and to the average customer this is a frightening scene (many think the "big interests" are rigging or controlling the market).

Question: I read an awful lot about cycles these days. Do you have an opinion on cycle studies?

Answer: That's a tough question, because to my mind it's a fuzzy area. In the past I spent (as veteran subscribers know) a lot of time discussing, diagraming and analyzing cycles. One of the first books I ever read on the stock market was the Dewey and Dakin classic study on cycles. Since then I have read many other cycle books. My conclusion: I think there are cycles in almost everything from the life of a flea to the stock market. The flea cycles are relatively easy to follow and understand. The stock market cycles are difficult and often impossible.

One of the problems with stock market cycles is that they are usually recognized in retrospect. "Oh yeah," you say, "that cycle is clear enough. Now if I had only recognized it before the Dow rallied 400 points!" And that frustrating example is pretty typical of the way it's been with me and cycles. It's been that way to the point where I have pretty much given up on using cycles for investing. The study of cycles is interesting, often fascinating, but I simply won't put my hard-earned money on a cycle conclusion.

Probably the best known cycle is the four-year presidential cycle, a cycle that seems to have worked very well since World War II. With regularity, the market seems to hit an important bottom roughly every four years, years such as 1970,1974, 1978, 1982 and..... well, so far we haven't had a recognizable cycle bottom in 1986. But one may come. Or we may have to wait until 1987. But if we wait until 1987, was the four-year cycle concept a help or a deception? You tell me.

It may be the old story. When everyone is aware of a specific phenomenon, that phenomenon becomes deceptive or disappears altogether. And a lot of people are now very familiar with the four-year cycle. We'll see if it shows up this year. As to the more esoteric cycles, I still read about them, and I still think about them. But you won't read something like this in Dow Theory Letters: "We're waiting patiently for the arrival of the six-month cycle low, which coincides with a nesting of bottoms in the 10-week and 21-week cycles." No, I guess I'm just not that enamored of cycles (with apologies to many of my friends in this industry).

Question: With the advent of violent intra-day movements in the averages due to the buy and sell "programs," do you think that Dow Theory price levels are going to be deceptive? For instance, an important level is the April 7 low of 1735.51 on the Dow. But one day a sell program may push the Dow TEMPORARILY through that level--even on a closing basis. Would you consider such a penetration valid?

Answer: I've thought a lot about that question. In other words, in view of the height of the Dow and the possibility of a sell program, shouldn't I be doubly careful about reading too much into a penetration (either up or down) by one of the Averages?

In the old days when the Dow was in the 150 to 600 area, any penetration (on a closing basis) of .01 or more was considered valid under Dow Theory. I think we may have to alter that rule now. Subscribers may note that when I refer to a potential penetration today I always say a DECISIVE penetration. By that I mean that I want to see one or both Averages go through key levels with force and on significantly higher volume.

I guess it all boils down to this: there are no magic formulas or rules in the stock market. And there is no substitute for seat-of-the-pants intuition. That's why analysis of the market will always be as much art as science. It's also why the stock market is so fascinating. Because the market has been around since the turn of the century, and millions of speculators, traders and investors have wrestled with it-- but no man or woman has yet devised a system to beat it. It's never been done!

Question: Agriculture is now in a depression, 20-odd farm states that contain most of America's natural resources are in economic trouble, "smokestack America" is in deep trouble, the oil industry and the oil states are in trouble, for the first time in 30 years the consumer price index has fallen three months running, bankruptcies are at record levels and many banks are in trouble. Yet the stock market is within percentage points of its all-time high. What's going on? And how long can the stock market continue this high-wire act?

Answer: All news stories, all business and economic stories, all newspaper articles -- are HISTORY. The stock market doesn't deal with history. It couldn't care less about yesterday's troubles or triumphs. When you read about good news or bad news in the economy, it is imperative in this business to remember that NEWS KNOWN IS NEWS DISCOUNTED. Thus America's deep troubles are yesterday's deep troubles. Wall Street is now (as always) stewing over tomorrow. I hope that answers this question (even if it is an indirect answer).

NOTES & QUOTES: A few years back travelers to Europe used to hear the cry, "Yankee go home." Now, Americans are taking the Europeans' advice; they're staying home--in droves. US travel to Greece is off 85%, it's off 30% to Britain and Italy reports a drop of 70%. Angry Europeans are now talking about the "chicken Americans." And, as a result of it all, many countries which previously enjoyed big dollar inflows from tourists are now hurting badly.

Meanwhile, the corporate meeting and seminar business is flourishing in the US. The most popular US cities for meetings are -- a whopping 12% of more than 13,000 seminars met in NYC, making Gotham No. 1 for the big get-togethers. Number 2 was Washington DC with 9%, 3 was a tie between Chicago and San Francisco with 8%, 4 was a tie between LA and Atlanta with 4% and 5 was a tie between Boston and Dallas with 3%.

* *

I asked my wife, Faye, "Do you think the new tax bill is sort of preparing the country for the eventual collapse of Social Security?" She laughed, "No way! If they were doing that, would they cut out the IRA deduction and drop the 401K contribution from $30,000 to $7,000?" I shrugged, "I guess you're right. These guys in Congress never think that far ahead." Faye answered, "You know how far ahead they think--just to the next election and not a day farther."

* *

In view of Japan's incredible (and ominous) balance-of-payments advantage with the US, I have a new idea that I want to try out with subscribers: The US has 650,000 lawyers and Japan has very few. We send 100,000 lawyers to Japan (we'll never miss 'em) and let them infiltrate Japanese industry. Within a year, instead of exporting anything, Japanese companies will be suing each other into oblivion or going broke as they issue massive new debt in the battle to take each other over.

* *

Paper losses or depreciating profits. There's a big difference, but many investors don't understand that difference. If you put $10,000 into a stock and the stock drops in half, you've actually LOST half your original capital plus the cost of commissions--and that ain't good!

Now say you put $10,000 into a stock, and the stock doubles so that your investment is worth $20,000. Then the market reacts and you lose $5,000, the same net amount as your loss in the first example. There's a big difference in the two losses. In the first example you lost capital, and in the second example you have to give back profits (which isn't always a happy event but it's permissible and it happens).

In fact, it even happens to one of the smartest and most successful investor in the nation. Warren Buffet, head of Berkshire Hathaway (and often mentioned here), owns roughly 42% of this company. At the recent high Berkshire's stock sold for $3,250 a share. Recently the stock corrected to $2,650, a drop of 600 points. That drop meant that Buffet's holding had sunk nearly $350 million in value (that's more than you and I are worth!). But such paper depreciation probably doesn't worry Buffet (who started the company with a modest original investment). But I cite the Buffet case as a dramatic example of what happens when you own a big chunk of good stocks and the market backs off.

* *

The federal deficit is still out of control. Last February the Office of Budget and Management estimated the '86 deficit at $208 billion. But the economist for Donaldson, Lufkin (Gert Von Der Linde) estimates that the deficit will be $222.6 billion for fiscal '86 which ends on October 1. What does this mean in terms of Gramm-Ruddman? Von Der Linde says that if Gramm-Ruddman is to do its work, the CUTS will have to increase by $20 billion to $58 billion! Should be an interesting year.

* *

Today's women: I have four daughters so this piece hit home. It was an article in the June 5 NY Times about a woman, what she learned from her mother, and what she teaches her daughters today. Here are a few choice excerpts:

> **Now we live in a world where 50 percent of all recent American marriages will end in divorce. Where women, whether they stay married or not, may outlive their husbands by 8 to 17 years. Where college costs from $7,000 to $25,000 a year. Where one income really can't support a family of four.**
>
> **We live in a world where women who are attorneys won't let you call them "ladies" but where university English majors are still almost all female and women carry as much weight as the wind in the world of men and substance.**
>
> **Here is what I taught my daughters: Become women of substance. Work for yourselves if you can. That way you won't have to take any lip, and you can work the hours you want. Never buy artificial fabric; always buy silk. If you can save any money, buy your own place, and keep it in your name. Live your whole life for the tax man; if you're a serious person, everything should be a deduction. And if you hate to save, or be tied down, put your money in jewelry. Even if it's only garnets or jade, it's yours, and it's wealth. And never, never do a job if it isn't fun.**

* *

Back in 1975 the Mexican peso was worth 12 to the dollar. Times have changed, and the Mexican economy is in a state verging somewhere between heart failure and collapse. Last week as Mexico weighed using the peso to pay off its massive debt, the peso smashed to 800 to the dollar. Paying off the debt with pesos is tantamount to declaring bankruptcy. What happens to the peso loans? They're not worth much, if anything, and it'll probably be up to the Fed to hold up the banks who loaned Mexico the money.

* *

"Would You Believe It" Dept. A new mutual fund called Wealth Monitors (of Kansas City, KA) is being started by Wealth Monitors Newsletter. The fund will track and buy and sell based on insider transactions. But copying the insiders is no guarantee of profits, as witness Carl Icahn's current huge loss when he took over TWA (his loss is in the tens of millions of dollars. Aside from that, I'm afraid that too many investors and speculators are now aware of the insider method of investing. Whenever any investing technique becomes too well-known--watch out!

* *

I wrote in a recent Letter that I liked Exxon as an investment, and that I believed that Exxon could actually come out of the whole oil price collapse stronger than ever (based on the fact that Exxon was turning "lean and mean" and that the huge oil company might well end up swallowing many smaller outfits at bargain prices). Exxon's management is generally conceded to be one of the BEST in the nation, so what they do is always of interest to Wall Street.

Note that Exxon's stock (despite the oil collapse) is near it's all-time high—and that alone should be telling us something (I like it as a buy).

* *

Who's making the big bucks in America? Quite a few sports people. No. 1 on the sports parade is Larry Holmes who made $6.6 million last year. 2 is a tie between Marvelous Marvin Hagler and Thomas Hearne at $5 million last year, 4 is Steve Young (football) at $3 million, 5 is Moses Malone (basketball) at $2.1 million, 6 is Jim Rice (baseball) $2 million, 7 is Kareem Abdul-Jabbar at $2 million, 8 is George Foster (baseball) at $2 million. In the other areas we have the big winners as follows Victor Posner at $9 million last year, Robert Redford at $6 million, Warren Beatty at $5 million, T. Boone Pickens at $4.2 million, Jack Nicholson at $4 million, John Gutfreund (Phibro, Salomon) at $3 million, Meryl Streep at $3 million, Goldie Hawn at $3 million, Steven Ross (Warner Comm.) at $2.8 million and, yes, Henry Kaufman at $2.64 million. Sad to say, no investment advisors made the list.

* *

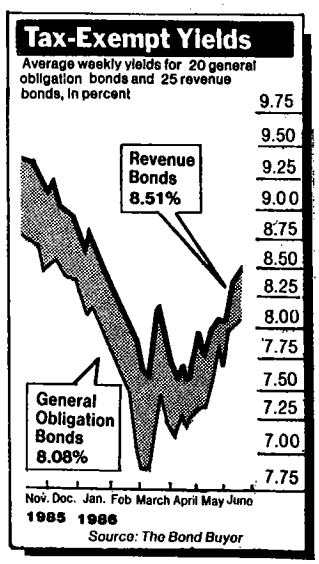
The big broadcasting companies are seeing their earnings drop, and this will have repercussions in sports. Professional football as we know it today could not survive without the huge (over 1 billion dollars) contracted from the networks. Next year the National Football League's contract comes up for renewal with the networks, and it's almost a sure thing that the NFL is going to come away with LESS. The NFL seems to know it. Mull this over: Two years ago the league had signed 125 rookies. By this time last year (without real USFL competition), the NFL had signed 25 rookies. As this is written, only 9 rookies have been signed (and not one first-round draft pick has been signed). The league owners, I believe, want to put a bit of a squeeze on salaries.

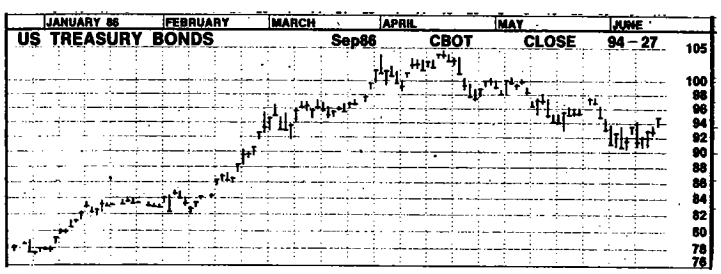
UTILITIES: On September 20, 1929 the D-J Utility Average closed at 144.61, its bull market high. That same month, the D-J Industrials hit a bull market high of 381.17, and the Transports hit a high of 189.11. In today's bull market the Industrials and Transports have left their old 1929 marks far behind, but it's interesting to note (and very few people are aware of this) that the Utility Average today is only 40 points above its '29 high. Is that a meaningful observation? Can we infer anything from the fact that the Utilities have been big laggers compared to industrial and transportation stocks? My own gut feeling is that the lag is meaningful. Furthermore, I have a secret suspicion that the utility stocks could fool everyone and start to make up for lost time -- before this big bull market is over. Remember, that's not a promise, it's just a Russell gut feeling.

A lot of the utilities' problems are behind them, and many of them have now largely solved their nuclear or their capacity problems (as well as their rate and financing problems). As such, many of the utility stocks are becoming "cash cows." The product these cows throw off is not milk, it's money. Due to this cash inflow plus a certain amount of leniency on the part of the government regulators, a number of utilities are taking on new projects OUTSIDE the utility field -- projects as diverse as cable TV networks and drug store chains. So if this bull market on Wall Street continues (and I think it will), the utilities could ultimately become very interesting stocks or even glamour issues. Furthermore, many of the utility issues still offer attractive yields in a market that is very short of high-yielding issues. Following are some electric utilities I like: Florida Progress, Northern States Power, IPALCO (the old Indianapolis Power and Light), Nevada Power, Potomac Electric, TECO Energy (the old Tampa Electric), Kansas Power & Light, Interstate Power, Tucson Electric Power.

Last week a few water utility stocks hit new highs (Consumers Water, Amer. Water Works, California Water), and as subscribers know, I continue to LIKE the water utilities. Furthermore, I most definitely see a water crisis coming up in the U.S. within five years and probably less (the crisis is beginning to hit the West already).

BONDS, RATES: Everybody is now bearish on bonds, and everybody knows that the big bond move is over. Right? Well maybe, but I (maverick that I am) believe that the bonds are just dropping into a trading range. This daily chart of the Sept. T-bond contract suggests that the bonds have completed at least one stage of their corrective decline and that they're ready for some upside action. I want to remind readers that the HARDEST thing to do in the world is to predict the direction of interest rates. But I'm going to try with the bonds -- I see a trading range with an upside of about 100 and a downside of 88. That's a big range, but what the heck, I never suggested that you trade bonds for fun and profit. Personally, I INVEST in bonds for tax-free income via the munis.

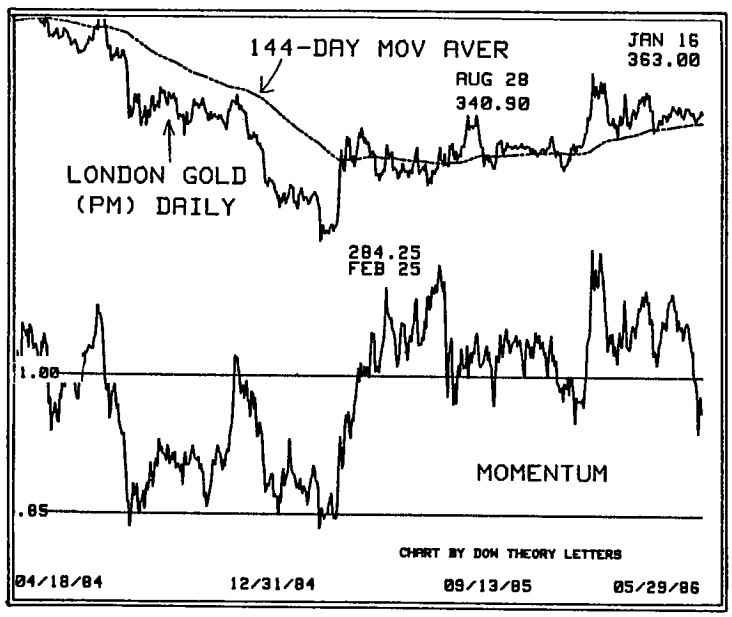




Speaking of munis, here is the NY Times' chart showing what's happened to muni yields over the last eight months. The munis have declined to the point where I feel they again offer attractive tax-exempt returns. Stick to the AA-rated general obligation bonds of your own state (unless you live in a state that is tax-free, and then go for the best yielding GOs from any state). A fact the public does not usually know: odd-lots in munis of $5,000 or $10,000 usually provide higher yields than big "even" lots. Furthermore, you can make your own bid on a muni--the muni brokers are usually flexible.

GOLD: If you've been speculating in gold or silver over the last year or so you've probably been beaten to death. But if you bought gold at last year's low of roughly 285 and just held it, you'd be up 22% on your holdings. What am I saying? Just this: I don't like the metals here as a speculation (and I've been saying this repeatedly), I like GOLD as INSURANCE and as REAL MONEY and as a necessary part of a DIVERSIFIED portfolio.

Irony: despite the desperate state of emergency in S. Africa, gold acts sluggish and disinterested. BUT despite a deflationary atmosphere in the U.S. and the world economy, gold REFUSES to turn bearish on my studies. Note on the accompanying daily chart that gold (having popped one day last week) is still holding firmly above its 144-day (exponential) moving average -- and that's a positive. Last week gold momentum (89-day rate-of-change) climbed above 1.0 again, and that's a second positive. The moving average for gold is now 339, and the MA is slowly, very slowly, climbing. Gold remains in a subtly bullish trend. What more can I say? Except that for diversification purposes I recommend buying the gold coins such as Krugerrands, Kronas, Maple Leafs, Pandas (the 1982, '83, '84 issues of the Pandas continue to climb in price, and the Panda is a gorgeous coin).



LATE NOTES: If you're a bear you might as well face it. You're feeling uncomfortable, and you've been (with the exception of a few breathers) uncomfortable all year. That's the way a primary bull market works--it keeps the bears hoping and hoping but always uncomfortable. On June 13 the market surged higher with the Dow up over 34 points and all the major indices (S&P 500, NYSE, etc.) within points of their all-time highs. Significantly, very significantly, my PTI rallied to 2290 on June 13, a new record high! And as I say, the price structure isn't perfect, the new highs aren't perfect, the A-D ratio isn't exactly where I'd like it, but if I were a bear on last week's closing I'd be mighty uncomfortable (and conversely, I don't think I know any bulls who are complaining).

Over the past few weeks this market has had every opportunity to go down. The downside pressure never materialized. A market that won't go down will ultimately head higher. And that's the story here during May and June, and the bears might as well face it.

NEXT MAILING: July 2